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ITALYEconomic Relationship With the United States

The slowdown in growth of Italian-American trade and investment in recent years has loosened economic ties between the two countries. Nonetheless, the United States remains one of Italy's key economic partners, probably less important than France and West Germany but more significant than the USSR. (C)

Italy's trade deficit with the United States narrowed from \$2.8 billion in 1980 to \$1.1 billion last year. Nonetheless, the cyclical weakness of American demand pushed the United States into fourth place among Italian export markets; for most of the 1970s, this country had held third place. United States purchases, totaling \$5.1 billion, accounted for 6 percent of total exports last year; in certain categories -- wine, leather shoes, gold and silver jewelry -- the US share of Italian exports exceeded 15 percent. While fashion goods loom large in Italian sales to the United States, raw materials and foodstuffs dominate Italian purchases from us. In 1981 US firms earned \$6.1 billion by filling 6.7 percent of Italian import needs. Besides selling lots of coal, corn, and oil-seeds, US companies captured military sales worth \$190 million in 1980 -- 10 times as large as US purchases from Italy.

From the Italian viewpoint, direct investment by US firms has been disappointing of late; there are signs, however, the situation may be improving. By the end of 1976, US funds

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accounted for 22 percent of all foreign investment in Italy. But the upsurge in terrorism and problems in the petrochemical industry dampened US firms' interest in investing in Italy during the late 1970s. In 1979, the net ^{inflow} [inflation] of ^{US} [United States] direct investment fell by \$6.5 million. Last year, the US Consul General in Milan noted a resurgence of US firms' interest. A new strategy to rationalize the state participations sector -- by encouraging firms to enter joint ventures with more efficient foreign firms -- has already ^{piqued} [peaked] the interest of one large US company, Occidental Petroleum. In January, a \$1 billion joint venture between Occidental and Italy's state-energy agency, ENI, was finalized. Italtel, the state-owned telecommunications equipment manufacturer, is negotiating a joint venture with GTE.

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One traditional bright spot in the Italo-US economic relationship is licensing. Italian firms usually devote few resources to R&D, preferring to license technological know-how from other firms, primarily American ones. Many Italian-built aircraft, for example, incorporate parts made under US license. Italian firms have been on the giving, as well as receiving, end of licensing arrangements. General Electric has a license to produce DEA (Turin-based firm) industrial robots. In April, Montedison sold Union Carbide a license for a ^{catalytic} [catalyst] process to make polyethylene. [redacted]

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Ties With the Soviet Bloc

The Italian-Soviet economic relationship revolves almost exclusively around trade. Many Italian officials are unhappy

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[redacted]

with the evolution of this trading relationship. The Italian trade deficit with the USSR has grown consistently during the last five years, reaching 2 trillion lire (\$1.8 billion) in 1981. The rising value of Italian energy imports from the Soviet Union -- up from \$200 million in 1973 to \$2.4 billion in 1981 -- largely explains the widening deficit. Export sales to the USSR have stagnated, dropping from 2.9 percent of total Italian exports in 1975 to 1.6 percent in 1980. This decline has affected all export industries, although the Soviet market remains very important for several Italian energy, transport equipment, and steel companies. Many in Rome are unsure whether Italy should redouble efforts to expand export sales to the USSR or should move on to greener pastures. [redacted]

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For Italy, trade with East European countries -- totaling \$2.8 billion in 1981 -- is almost as valuable as trade with the USSR. Manufactured goods -- especially chemicals and machinery -- dominate Italian exports to Eastern Europe, while petroleum products and coal account for about one-third of Italian imports from this area. As with the USSR, bilateral trade with Eastern Europe declined in recent years, dropping from 3.0 percent of total Italian trade in 1974 to 1.7 percent in 1981. The financial problems of Poland and Romania -- traditionally Italy's largest East European customers -- largely explain this downward trend. During the late 1970s, Poland accounted for one-quarter of Italian-East European trade. When the Polish economy took a nosedive in 1981, exports to Italy fell 41 percent and imports from Italy dropped almost as much. Romanian debt rescheduling

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[redacted]

has sidetracked a \$320 million contract for nuclear power plant construction by Ansaldo, an Italian company, and General Electric. Hungary became Italy's number-one export market in East Europe in 1981, buying goods totaling \$266 million. [redacted]

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In the non-trade arena, Fiat has granted licenses to several Bloc countries -- including Poland and the USSR -- to manufacture autos. One of the rare examples of direct investment involves Tecnicon, a joint venture between Italimpianti and the Soviet entity Licensintorg. Tecnicon builds industrial plants and has won contracts in Brazil and Libya. [redacted]

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Reaction to US Trade Measures

The steel and pipeline decisions hit Rome at a time when government officials were preoccupied with domestic economic controversies, most notably revision of the wage indexation scheme. Italy thus opted to wait and let the United Kingdom and West Germany lead the way. On 29 June Italian officials informed the United States ^{that}, like their European neighbors, they rejected the attempt to impose extraterritorial controls on pre-existing contracts. Rome no longer considers as binding the 11 January commitment of NATO members to refrain from undermining each other's sanctions. Unless a new, stronger governing coalition emerges in the near future, Italy will probably adopt retaliatory measures outside the pipeline and steel spheres if other European Community members do. A convenient target, if the Italians wished to lash out at the United States, would be man-made fibers. In January 1982, Montefibre's managing director complained to Milan consular officials that several US firms had

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sold large quantities of man-made fibers to Italian importers at prices 20 to 30 percent below prevailing market rates. [REDACTED]

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Nuovo Pignone -- a subsidiary of the state energy agency, ENI -- has the largest pipeline turbine order (57 units), the most GE rotors in inventory (probably 15), and thus potentially the most to lose from the US 18 June decision. Officials at ENI have told the Embassy in Rome that they are coordinating their reactions with the other affected European firms. Nuovo Pignone appears open to the idea of helping the USSR manufacture Soviet-designed turbines. Nevertheless the firm continues to stress that it values a good relationship with General Electric.

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